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TO RUEHC/SECSTATE WASHDC 9548  
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEHML/AMEMBASSY MANILA 3059  
RUEHBUL/AMEMBASSY KABUL 9326  
RUEHNE/AMEMBASSY NEW DELHI 3959  
RUEHLO/AMEMBASSY LONDON 8987  
RUEHKP/AMCONSUL KARACHI 0537  
RUEHLH/AMCONSUL LAHORE 6273  
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RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
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RUEAIIA/CIA WASHDC  
RUEKJCS/SECDEF WASHINGTON DC

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SUBJECT: TAREEN PRIMES SENATE FOR IMF PROGRAM AND REFORM

#### Summary

11. (SBU) On October 29 Economic Advisor Shaukat Tareen tried to convince Pakistan's Senate members that any IMF program would be on terms favorable to Pakistan and presented an extensive economic reform agenda. He also revealed that the fiscal deficit projection of 7.4 percent of GDP is actually approaching 10 percent. The Government of Pakistan's central bank reports the government and government-owned public sector enterprises (PSE) have borrowed 330 billion rupees (USD 4.1 billion at 81.25 rupees per dollar) since July, despite commitments to stop this inflationary practice. End Summary.

#### ----- GOVERNMENT ROADMAP -----

12. (SBU) Economic Advisor Shaukat Tareen presented his "government roadmap" to the Pakistan Senate for five hours on October 29, outlining his plan for economic reform. His central message was that Pakistan may agree to an IMF program but that it would be on its own terms and conditions. (Comment: Manzoor A. Sheikh, Senior Policy Advisor for Finance, confided that the GOP has very little leverage to negotiate a wholly "home-grown strategy" and will have to accept the IMF's priority policy adjustments. Ratings agencies, such as Moody's, expect IMF vetting before reconsidering Pakistan's deteriorating ratings. End comment.) Tareen highlighted the importance of improving macroeconomic indicators, such as slowing the inflation rate, which has reached 25 percent generally and 30 percent on food specifically. He revealed that the fiscal deficit projection of 7.4 percent of GDP is actually approaching 10 percent.

13. (SBU) Despite the need for fiscal restraint, Tareen proposed four priority social programs. He advocated doubling the number of enrollees of the Benazir Income Support Programme from 3.5 million to 7 million. Another program he supports is government funding for technical training of 6-9 months for one child from each household. He advocated providing health insurance for every poor family, which he estimates will cost Rs 15,000-20,000 (USD 185-246) per family annually. He also recommended local public-works programs.

14. (SBU) Tareen's comments also covered the need to reform the agricultural sector, promote the use of public-private partnerships to "reduce the burden on the government and also enhance efficiency of various sectors," and increase the benefits of the financial sector for the real economy. He also proposed extending banking to rural areas and expanding agricultural credit.

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CENTRAL BANK ON LENDING SPREE  
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15. (SBU) The State Bank of Pakistan (SBP) - the central bank - reported that since the beginning of the fiscal year three and half months ago, the government and government-owned PSEs have borrowed record amounts from SBP. The GOP borrowed - net of payments - 271.75 billion rupees (USD 3.34 billion at 81.25 rupees to USD), compared to 10.9 billion rupees (USD 134 million) during the same period last year. The PSEs borrowed 58.8 billion rupees (USD 724 million), equal to cumulative borrowing during the past three years.

(Comment: The GOP has been financing the twin fiscal and current account deficits by borrowing from SBP, expanding the money supply which causes high inflation and rapid depreciation of the currency. The GOP recently committed to zero net borrowing from the SBP but has not been able to honor that pledge. End comment.)

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VOLATILE DEFAULT MARKET  
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16. (SBU) On October 29, Credit Default Swap spreads lowered from their high of 5,106 basis points on October 28 to 3,720 as a result of increased confidence that Pakistan will not default on its debt during the medium-term. (Comment: The increase in confidence may be caused by speculation or leaked information on the IMF program negotiations. End comment.)

PATTERSON